

Message Text

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ORIGIN AF-10

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C O N F I D E N T I A L STATE 042284

E.O. 11652: GDS

TAGS: ENRG, EFIN, EINV, NI

SUBJECT: GULF OIL CO. NEGOTIATIONS WITH FMG

REF: STATE 34643 AND PREVIOUS

1. GULF DIRECTOR INTERNATIONAL AFFAIRS, NESTOR ORTIZ, BRIEFED AF/W ON FEBRUARY 10 ON CURRENT SITUATION REGARDING FMG'S DESIRE TO RENEGOTIATE COMPENSATION FOR COMPANY EQUITY SHARES AND OTHER FINANCIAL CLAIMS AGAINST FIRM BY FMG. ON RETURN OF COMPENSATION ISSUE, ORTIZ STATED THAT FMG MAY SEEK AS MUCH AS DOLS 95 MILLION, INCLUDING INTEREST, AS DIFFERENCE BETWEEN UPDATED BOOK VALUE PAID FOR 35 PERCENT OF GULF SHARES IN NOVEMBER 1976 AND NET BOOK VALUE. (THIS INFORMATION WAS PROVIDED IN CONFIDENCE AND SHOULD BE PROTECTED. GULF POSITION IS THAT AT TIME OF SALE FMG WAS FULLY AWARE OF REJECTION OF THIS METHOD OF VALUATION BY KUWAIT AND THUS WAS NOT "TRICKED" INTO CONFIDENTIAL

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ACCEEDING TO GULF'S TERMS. GULF TAKING HARD LINE POSITION ON REPAYMENT OF COMPENSATION BASED ON ABSENCE OF LEGAL GROUNDS ON WHICH TO DO SO.

2. ORTIZ SAID THAT FMG IS ALSO SEEKING UP TO DOLS 21 MILLION PLUS INTEREST FROM GULF FOR SALE OF 21MBLS FMG

EQUITY OIL IN 1973-74 AT PRICE WHICH WAS ABOUT DOLS ONE

HIGHER THAN FMG HAD ANTICIPATED. GULF ADMITS THAT ON THIS ISSUE THERE IS MERIT IN FMG POSITION AND COMPANY IS WILLING TO NEGOTIATE AMOUNT TO BE RETURNED TO FMG.

3. FMG IS SEEKING DOLS 13 MILLION BACK PAYMENT OF "LIGHT AND BUOY FEES" WHICH IT CLAIMS GULF OWES FOR 1971-77 PERIOD. ORTIZ SAID THAT THIS MATTER IS NOW IN COURT IN NIGERIA.

4. FINALLY, ORTIZ STATED THAT FMG WISHES TO INCREASE EQUITY SHARE IN GULF FROM 55 PERCENT TO 60 PERCENT.

5. GULF HOPES TO SETTLE ALL OF THESE ISSUES ON "WORKING LEVEL" OR IN COURTS AND DOES NOT SEEK USG ASSISTANCE AT THIS TIME. ORTIZ CLAIMS THAT IF GULF ACCEDED TO ALL OF FMG'S DEMANDS IT WOULD COST COMPANY TOTAL DOLS 145 MILLION. ORTIZ SAID THAT SHELL/BP AND MOBIL FIND THEMSELVES IN SIMILAR POSITION EXCEPT THAT IN CASE OF FORMER SITUATION IS MAGNIFIED BY SIZE OF COMPANIES' INVESTMENT AND PRODUCTION.

6. WE ASKED ABOUT STATUS OF FMG'S DRAFT LETTER CONCERNING POTENTIAL EXCHANGE CONTROL PROBLEM PER 77 STATE 241045 AND ORTIZ SAID MATTER SEEMS TO HAVE BEEN DROPPED.

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NNN

*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

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